

## **APPENDIX D**

# **EXAMPLE OF ANNUAL REPORT**



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**ANNUAL REPORT**

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**EXAMPLE OF REPORT**

The example shown on the following pages is not a mandatory format. It can be modified to suit individual State's needs, For example, some States, based on their organizational structure, may find it necessary to add additional sections or combine sections to fit their management arrangement.

Reviewers should have discussions with management prior to report preparation to determine the expected report content and format.

Each Regional Office may also need and request certain information. The National Office will provide instructions in a separate directive concerning data requirements for the Department of Labor. Data will be used in the Tax Performance System portion of an overall system of UI performance measurement known as UI Performs.



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THIS EXAMPLE SUGGESTS STYLE AND LANGUAGE. THE EXAMPLES OF COMPUTED MEASURES DO NOT REPRESENT DESIRED LEVELS OF ACHIEVEMENT.

Show purpose and date review was completed

Describe organization of report

The section detailing each tax function should be a document that can "stand alone"

**TPS ANNUAL REPORT FOR 1995**

**STATE XXX**

**DATE**

**This Report consists of the findings and recommendations resulting from the TPS review of the UI Revenue (Tax) Operations completed April 30, 1996. The report is divided into two sections.**

**Section I is an Executive Summary providing general background information regarding the review and a summary of the major findings, conclusions, and recommendations. Also included with this section are the Computed Measures indicators for the past three years, and a Program Review Findings Chart.**

**Section II is a Detailed Report of each of the tax functions reviewed. This Section also includes a letter from the Regional Office Representative authorizing the use of blanket N/As and Compensating Controls.**

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Explain which tax functions were reviewed and the methodologies used

TAX PERFORMANCE SYSTEM

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SECTION I

EXECUTIVE SUMMARY

The TPS review assessed the quality of the UI Tax Operation in each of the major tax functions using the following methodologies:

- **Computed Measures**

Specific indicators for Status Determinations, Report Delinquency, Collections and Field Audit were compiled to assess timeliness and completeness.

- **Program Reviews**

Systems Reviews: The internal controls and quality assurance systems of each tax function were examined.

Acceptance Samples: Small samples were examined from each tax function to confirm that controls and quality assurance systems were working effectively to produce accurate outputs.

- **Methods Surveys**

Information was gathered on the State's methods and procedures to: facilitate and promote employer identification and registration; resolve delinquencies; promote voluntary payment compliance; and manage and control Accounts Receivable.

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Provide Synopsis of What Was Found in Each Area

**FINDINGS AND CONCLUSIONS**

Indicate whether Acceptance Sample passed or failed the review

Identify strengths and weaknesses

Status

Reasonable assurance of quality was confirmed for Status Determinations and Status Posting functions. The Acceptance Samples for New, Successor, and Inactivation Determinations all passed the review which validated the effectiveness of the internal controls. The Systems Review, however, did identify a potential risk in the Status successor area.

The Computed Measures indicated that both New and Successor Status Determinations were completed in a timely manner. The percentages for New Status determinations were 81.2% made within 90 days and 99.3% in 180 days. The percentages for Successor Status determinations were 89.3% made within 90 days and 99.7% in 180 days.

Cashiering

Reasonable assurance of quality was confirmed for the Cashiering function. The Systems Review verified the existence of the necessary internal controls, and no risks were identified. The Acceptance Sample cases all passed, and the three verification tests also passed, which validated the effectiveness of the internal controls.

If no risk was found, say so

Report Delinquency

Reasonable assurance of quality was confirmed in this function. The Program Review findings indicated that all internal controls were present and operating effectively. The absence of risks in the Systems Review was consistent with no errors found in the Acceptance Sample cases.

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Examine and discuss trend indicated by Computed Measures

Report Delinquency (cont.)

The Computed Measures indicated that the State is doing very well in securing and resolving report delinquencies. The State had 91.7% of the contribution reports filed timely; 94.1% of reports were secured by the end of the following quarter; and 99.1% of reports were secured or resolved within 180 days.

Remember to include Computed Measures findings when assessing quality

Collections

In the Collections function, the Systems Review findings indicated that all internal controls were present and the Acceptance Sample cases verified that the collection procedures were being adhered to; however, the findings from the Computed Measures indicated that the State was not effective in managing accounts receivable.

Discuss effect of any trend that may be revealed by Computed Measures

The Computed Measures imply that the State is experiencing problems in collecting past due taxes. The percent of contributory employers making timely payments (Indicator 1) was 91.1%, the turnover of receivables (Indicator 2) was 1.3%, the percent declared uncollectible (Indicator 3) was 0.6%, and the percent of unpaid contributions/reimbursements due (Indicator 4) was 7.4%. These percentages indicate that the SESA may not be collecting tax dollars past due in a timely manner, and is not currently reducing the overall level of accounts receivable which has been static for the past three years.



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If problems were found,  
say so

however...

point out any actions being  
taken to remedy problem areas

Identify areas of strength

Field Audit

Reasonable assurance of quality was not confirmed for the Field Audit function. The Systems Review identified a risk in the recording of transactions and events. This lack of documentation has been addressed since the TPS Review, and refresher training for all field auditors is planned for the near future. Due to the actions being taken to correct this weakness, a marked improvement is anticipated by the time the next TPS review takes place.

The results of the three computed measures indicated overall, that the State has managed the field audit program well for the review year. The percent of change in total wages audited was 14.3%, the audit penetration rate of 2.8% exceeded the DOL penetration level requirements, and the percent of total wages audited was 4.0%

Account Maintenance

Reasonable assurance of quality in the Account Maintenance function was confirmed for all areas except in Employer Debits/Billings. The Systems Reviews conducted for Contribution Report Processing, Employer Credits/Refunds, Benefit Charging, and Employer Tax Rates indicated that all necessary controls were present; and the Acceptance Samples for these areas validated the effectiveness of those controls.

If an inconsistency exists  
between Systems Review and  
Sampling, explain it

The Systems Review conducted for Employer Debits/Billings also revealed no risks, and indicated that all internal controls were present; however, the Acceptance Samples cases identified errors in billing employers properly. The contributing factors were subsequently identified, and actions have been taken to resolve this problem.

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Identify any systemic problem areas and note actions under consideration

Global/Systemic or Other Miscellaneous Findings

In conducting the Systems Reviews for the various tax functions, a lack of written procedures was found to exist in several functions. The Tax Unit staff has been advised of these findings, and they are taking steps to work with the Technical Support unit to write procedures for these functions as time and money permit.

Also highlight any findings that appear exemplary

Exemplary Findings

An exemplary practice was identified in the Account Maintenance function for Benefit Charging. The State's automated system reconciles each benefit check by individual social security number to each employer's account attached to the claim. This reconciliation is performed daily. Such a control assures the State that all benefits paid are accurately allocated to the proper employer's account or to the general pool account.

**RECOMMENDATIONS**

Collections

In developing suggestions for improvements, examine the Methods Survey data of other States with high scoring Computed Measures For details on other States' procedures & tools, contact your Regional partner

It is recommended that the Collections Unit implement additional procedures and/or tools to more effectively manage accounts receivable. E. g., immediate lien filing for chronic employers and automated lien filing for accounts over 60 days old.

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RECOMMENDATIONS (cont.)

Field Audit

Many times, the State's own tax staff will have the best solutions

In the Field Audit unit, refresher training should be provided to assure that all field auditors are aware of the documentation requirements. A review system should be implemented to assure that the audits are meeting the documentation requirements. Audits completed by auditors who are more prone to err may require more extensive review.

Account Maintenance (Employer Debits/Billings)

At times, the ADP staff may have to be involved

The computer program for employer billings needs to be modified to reject contribution reports not properly prepared for the scanner. Clarification to the written procedures needs to be provided to notify all staff that black #2 pencils should be used in preparing reports for the scanner. The supervisor of this unit could consider implementing a review to assure that staff is properly completing the reports to be scanned.

Don't overlook simple solutions

Global/Systemic and Miscellaneous

The Tax staff should take steps to begin the process of writing procedures for each unit where a risk was identified in the area of recording information and instructions.

Other

If problems are identified that fall outside the scope of TPS's review - still bring it to the State administrator's attention

Outside the scope of the TPS Review in Cashiering, a non-sufficient-funds check was discovered on a claims overpayment that had been charged back to the Benefit Payment Account, but had not been added back to the amount of the claimant's overpayment. The Benefit Payment Control Unit was notified and the procedures were amended to prevent future problems of this type.

## PROGRAM REVIEW FINDINGS

SESA NAME: \_\_\_\_\_

REVIEW PERIOD: \_\_\_\_\_

FUNCTION		Systems Review Verified Controls for:						Acceptance Sample Confirmed:
		Recorded Instructions	Training	Recording of Events	Execution by Authorized Individuals	Execution of Events	Review of Completed Work	Accuracy of Output and Effectiveness of Controls?
<b>STATUS DETERMINATION</b>								
New	Determination	C	C	C		C	C	Y
	Posting			C		C	C	Y
Successor	Determination	R	R	R		C	R	Y
	Posting			C		C	C	Y
Inact/Term.	Determination	C	C	C		C	C	Y
	Posting			C		C	C	Y
<b>CASHIERING</b>		C	C	C	C	C	C	Y
<b>REPORT DELINQUENCY</b>		C	C	C		C	C	Y
<b>COLLECTIONS</b>		C	C	C	C	C	C	Y
<b>FIELD AUDIT</b>								
Random								
Other		C	R	R		C	C	N
<b>ACCOUNT MAINTENANCE</b>								
Contribution Report Processing		C	C	C		C	C	Y
Employer Debits/Billings		C	C	C		C	C	Cont. N
								Reim. Y
Employer Credits/Refunds		C	C	C		C	C	Y
Employer Charging		C	C	C		C	C	Y
Employer Tax Rates		C	C	C		C	C	Y

LEGEND: Systems Review C = All controls verified as present

R = 1 or more controls missing

O = Other control was identified which compensated for missing control (requires Regional approval)

Acceptance Samples

Y = Two or fewer sample cases failed, confirming accuracy of outputs and effectiveness of controls

N = Three or more sample cases were not accurate and did not validate effectiveness of controls

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Attach graphics of Computed Measures

Computed Measures calculations and layouts  
(under development)

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NOTE: THIS SECTION OF APPENDIX D PROVIDES EXAMPLES OF FINDINGS FOR SOME BUT NOT ALL TAX FUNCTIONS.

TAX PERFORMANCE SYSTEM

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SECTION II

DETAILED REPORT FOR EACH FUNCTION

For each tax function, the report should be complete - it should be able to stand alone

Synopsise findings up front, with details to follow

STATUS

Findings from Computed Measures indicated that both New and Successor Status Determinations were completed in a timely manner and have continued to improve. Reasonable Assurance of accuracy was found in all categories of Status Determination and Posting – Newly established accounts, Successors and Inactivations/Terminations.

Computed Measures Findings:

Briefly describe what was measured

Indicator 1. Percent of Status Determinations of newly established accounts made within 90 days from the last day of the quarter in which the account first became liable:

Cite several years' worth of data (when available)

1993   1994   1995

80.3%   80.6%   81.2%

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Computed Measures Findings (cont.)

Indicator 2. Percent of Status Determination of newly established accounts made within 180 days from the last day of the quarter in which the account first became liable:

<u>1993</u>	<u>1994</u>	<u>1995</u>
98.2%	98.7%	99.3%

Indicator 3. Percent of Status Determinations of Successor accounts made within 90 days from the last day of the quarter in which the account first became liable as a Successor:

<u>1993</u>	<u>1994</u>	<u>1995</u>
85.6	87.3%	89.3%

Indicator 4. Percent of Status Determinations of Successor accounts made within 180 days from the last day of the quarter in which the account first became liable as a Successor:

<u>1993</u>	<u>1994</u>	<u>1995</u>
89.6	99.7%	99.7%

If the unit is strong in an area,  
say so

Attempt to identify and  
evaluate any trends

The percent of Status Determinations completed for both New and Successor employers indicated that the State is doing very well. During the past two years, emphasis has been placed on the timely completion of Successor Determinations and it is evident that there has been a positive effect on performance.

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Program Review Findings:

Reasonable Assurance of accuracy was confirmed in all three Acceptance Samples. The Status New Determination and Status Inactivation/Termination Acceptance Samples passed the review with no failing cases.

Although all categories of Status Acceptance Samples passed, some weaknesses in the Successor function were identified in the Systems Review. These weaknesses indicate a need for written procedures and instructions to be updated, a need for improvement in documentation of investigative procedures and a more systematic review of completed Successor Determination work.

The Successor Determination Acceptance Sample passed 58 of the 60 cases. (There is "reasonable assurance of accuracy" if two or fewer samples fail sampling review.) The two failing cases contained no evidence or documentation that fact-finding investigations had been conducted. The SESA procedures require a thorough investigation before making a Successor Determination, and such fact-finding is required to be documented. In connection with this lack of documentation of fact-finding, Systems Review risks were identified in the following categories:

- Recorded instructions - Successor instructions in the operating manual did not spell out current investigative fact-finding requirements.
- Training - No back-up training for employees in the Successor area.
- Recording of Transaction and Events - Documentation is not being maintained to support that fact-finding procedures are being followed.



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Explain any inconsistency between Systems Review and Acceptance Sample findings

When recommending improvements, explain the material effect the risk has on the tax system

It is suggested that recommendation are developed with input from State tax staff and Regional staff

Program Review Findings: (cont.)

- Review of Completed Work - No systematic review of Successor Determinations is currently being conducted.

The overall passing of the Successor Acceptance Sample when risks were identified during the Systems Review seems to be directly related to a knowledgeable, long-time employee who makes Successor Determinations; however, complete reliance on the presence of long-time employees to overcome the lack of controls poses a risk because an employee could retire, become ill or otherwise become unavailable.

Improvements are recommended in all the areas where risks were identified because inaccurate Successor Determinations can result in lost revenue to the SESA's trust fund.

Recommendations:

- Implement a plan to periodically update the operations manual to ensure that recorded instructions are current (particularly in the Successor area).
- Describe the proper fact-finding procedures required for making successor determinations, and include the level of documentation required to substantiate that fact-finding was conducted.
- Institute a "back-up" training program in the Successor area.
- Institute a systematic review of completed Successor Determinations to ensure that all procedures have been followed.

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Take into account both the  
Computed Measures and  
Program Review findings.

**COLLECTIONS**

In the Collections function the Systems Review indicated that all controls were present, and the Acceptance Sample cases verified that the State's procedures for collection activities were being followed. The Computed Measures, however, indicated that the State may be experiencing some problems in managing the Accounts Receivable.

Computed Measures Findings:

Indicator 1. The percent of employers making timely payments was as follows:

	<u>1993</u>	<u>1994</u>	<u>1995</u>
Contr	90.6%	91.0%	91.1%
Reimb	98.1%	98.3%	98.4%

Indicator 2. The turnover ratio (ratio of receivables liquidated and declared uncollectible compared to tax due) for the past three years was:

	<u>1993</u>	<u>1994</u>	<u>1995</u>
Contr.	1.4%	1.3%	1.3%
Reimb.	1.7%	0.6%	1.6%

Indicator 3. The percent of tax due declared uncollectible was as follows:

	<u>1993</u>	<u>1994</u>	<u>1995</u>
Contr.	0.5%	0.8	0.6%
Reimb.	0.2%	0.1%	0.5%

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Computed Measures (cont.)

Indicator 4. The percent of unpaid contributions/reimbursements due (the percent of accounts receivable at end of the report period compared to tax due) was:

	<u>1993</u>	<u>1994</u>	<u>1995</u>
Contr.	7.2%	7.3%	7.4%
Reimb.	3.4%	3.4%	3.1%

These measures indicated that voluntary payment compliance, the turnover ratio, and the amounts declared uncollectible have remained constant; however, the amount of unpaid contributions has continued to increase. The collection tools currently utilized by the State in collecting past due money should be examined for effectiveness.

Program Review Findings:

All internal controls in the Collections function were found to be in place, and the Acceptance Sample cases validated that the procedures were being followed. Thus reasonable assurance that all State collection procedures were being followed was confirmed, however, the Computed Measures indicated that accounts receivable were not being reduced in a timely and efficient manner.

Improvements are needed in the collections procedures. The tools currently available to the collections unit should be re evaluated, with consideration given to implementing other, more effective methods to collect accounts receivable.

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Utilize Methods Survey  
information from other  
States to develop ideas  
for recommendations

Recommendations:

- Continue evaluation of the tools and procedures of States X, Y and Z (whose Computed Measures data indicate a more efficient and/or effective management of their accounts receivable).
- Implement additional collection procedures and/or tools where warranted, and where such implementation is feasible.

Examples of collection tools that should be considered for implementation follow:

1. Develop criteria to identify "chronic" employers and require immediate lien filing and involuntary collection actions for these employers.
2. Program computer to create a Notice of Tax Lien document for any unpaid liability that is 60 days old. In the interim, institute manual suspense system to have tax liens initiated when liability is 60 days old.

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**FIELD AUDIT**

If cases failed, say how many

If the function performed well  
elsewhere, say so

Reasonable assurance of quality could not be confirmed in the Field Audit program as five of the Acceptance Sample cases failed. The Computed Measures, however, indicated that the State did exceed the DOL audit penetration level requirements and performed well in total wages audited and in percent of change in total wages audited.

Computed Measures Findings:

Indicator 1. Percent of change in total wages resulting from audits:

<u>1993</u>	<u>1994</u>	<u>1995</u>
1.6%	11.6%	14.3%

Indicator 2. Percent of contributory employers that are audited:

<u>1993</u>	<u>1994</u>	<u>1995</u>
4.3%	2.6%	2.8%

Indicator 3. The percent of total wages audited:

<u>1993</u>	<u>1994</u>	<u>1995</u>
1.2%	2.0%	4.0%

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Computed Measures Findings (cont.)

The percent of change found in audits (Indicator #1) for the last three years has shown a significant increase. This is attributable to a more in-depth search for unreported and misclassified wages, and the targeting of employers for audit using the State's modified IRS 1099 information exchange program.

The second indicator reflects that the State has exceeded the required DLA penetration rate of 2.0%.

The third indicator, percent of total wages audited, has increased during the past 3 years because emphasis is no longer being placed on auditing small employers, and due to the ESM's requirement that one percent of all audits must be large employers.

Program Review Findings:

Reasonable Assurance of quality could not be confirmed in the Field Audit function. The Systems Review revealed that field auditors have not received any form of refresher training. Such training is needed to assure that field auditors are skilled in conducting tests of employer payroll systems, examining the proper employer records, drawing the proper conclusions in their search for misclassified workers, and in providing adequate documentation in their audits.

Risks were identified in the following categories:

- Training - The State has no provision for refresher training for the audit program.
- Recording of Transactions and Events - Adequate documentation is not being provided by the field auditors.

The risks identified were supported by the failure of the Field Audit Acceptance Sample. Five of the 60 Field Audit Acceptance Sample cases failed. Two cases failed because the verification of the payroll posting system was not completed from a source document. Three cases failed due to inadequate documentation regarding a search for misclassified employees and hidden wages.

Cite specifically why each case failed.

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If improvements have been made, say so.

Program Review Finding (cont.)

Even though five of the Acceptance Sample cases failed, the Field Audit Program showed vast improvement over last year's review when 38 out of 60 cases failed. This improvement is due primarily to the revisions to the Field Audit Manual, update of the Field Audit forms, and a cursory review of all field audits.

Recommendations:

- Initiate refresher training courses for all field auditors.
- Ensure that field auditors provide supporting documentation for tests of employer payrolls and when searching for misclassified workers.
- Institute a review system whereby all audits are equally subject to review and also review a greater number of those audits completed by auditors who have not yet exceeded a predetermined experience level or whose error rate exceeds a predetermined level.
- Consider State X's process of utilizing peers to review the quality of completed field audits.

If other States have successful procedures in place, consider noting them as recommendations.

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**ACCOUNT MAINTENANCE** (Employer Debits/Billings)

Reasonable assurance of quality could not be confirmed in the Account Maintenance function for processing employer debits and/or billings.

Program Review Findings:

The Systems Review for Employer Debits/Billings was completed without identifying any risks; however, of the 60 Acceptance Samples cases, three were found unacceptable which caused the entire sample to fail the review. Investigation showed this inconsistency directly related to: 1) the interpretation of the written procedures for preparing reports for scan posting to the computer; and 2) the programming of the computer system.

Both factors center around the second line in the "for Dept Use Only" box on the report forms. This line contains four blocks. Procedures require staff to darken one of these blocks, depending on what category the report falls into. Review of the actual report forms showed the correct block had been identified, but only partially darkened, and with a light blue pencil mark.

These employers should have been issued a billing that included the 10% late payment penalty and shown the liability as immediately collectable. However, in all 3 cases, the computer had treated them as "signed with full payment" reports. Under this category, the computer issued a billing which allowed an additional 30 days to pay the liability without penalty. This type billing prevents the Department from pursuing involuntary collection for 35 days.

Explain any inconsistencies

Show the problem's impact on the tax operation



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Describe the effect of the  
problem area

Program Review Findings (Cont)

The procedures were explicit about which block to mark for each category and these procedures had been reviewed and approved by ADP staff as current, accurate and complete.

However, the procedures did not address the color the pencil to be used, or expressly specify that the entire block must be darkened.

The above factors were compounded by the programming which did not allow for the computer not being able to "see" a mark on the block line. When this happened, the computer would treat the unpaid report as an error in computation report and issue the billing previously described.

Erroneous billings can cause: significant reductions in penalties that should be imposed; a slowdown of action against employers who otherwise meet the criteria for immediate collection actions; inequity for the vast majority of the employer community who pay payroll taxes timely.

Recommendations:

- Immediate use of black #2 pencils in all units preparing reports for computer scanning.
- Instruct first level supervisors to include a cursory review of the size and darkness of the marks in this line on the report when reviewing staff's work for completeness and accuracy.
- Clarify the written procedures to make it clear that the block must be completely darkened and specify use of the correct pencil.
- Modify programming of the computer so that if the computer can't "see" a mark on the block line, that it will post the report to "error suspense" for follow up by the staff of this unit.